

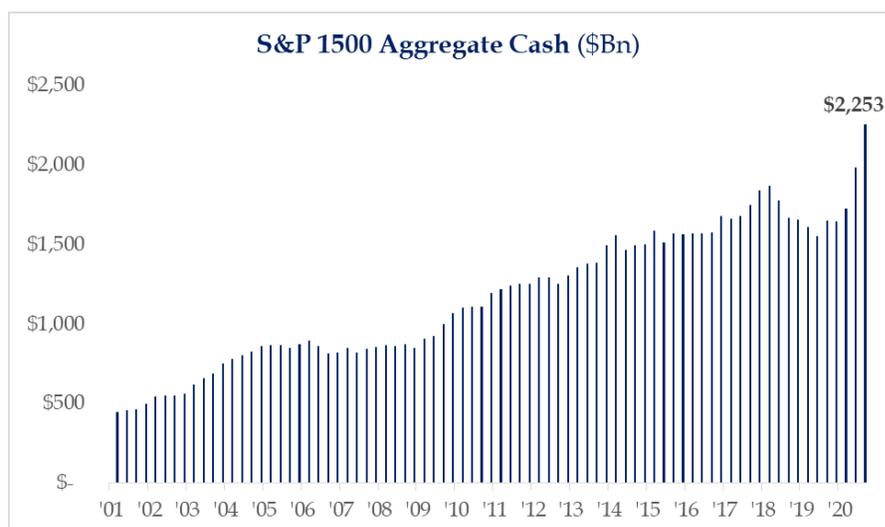
Strategas Daily Macro Brief

Prepared by Strategas Securities, a Baird Company

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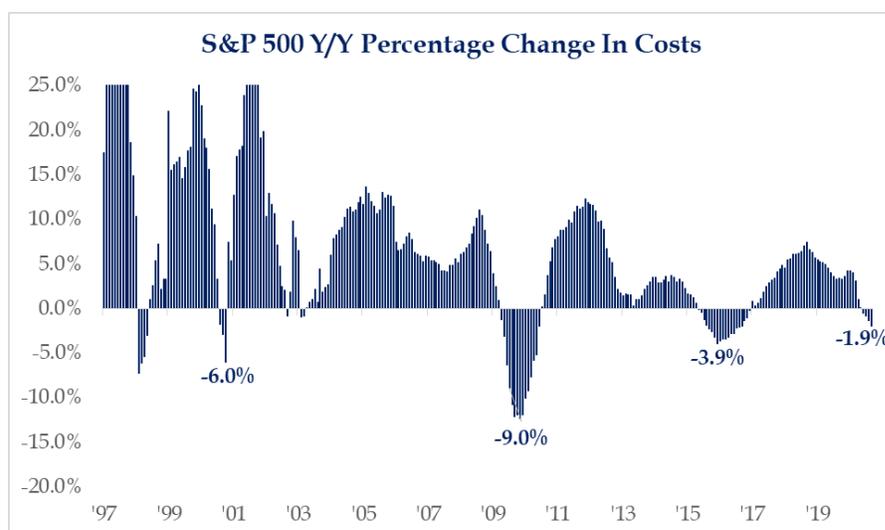
WHAT WILL COMPANIES DO WITH THE ADDITIONAL CASH THEY NOW HAVE?

In aggregate, companies in the S&P 1500 have seen cash on their balance sheets increase by more than \$600 billion since the end of 2019. Much of the rise results from issuing additional debt to ensure liquidity is ample for an extended downturn. What we will be watching for this earnings season is what companies intend to use the funds for, whether it be capex, share repurchases, dividend payments, company acquisitions, or debt repayments.



IS MANAGEMENT STILL LOOKING TO CUT COSTS?

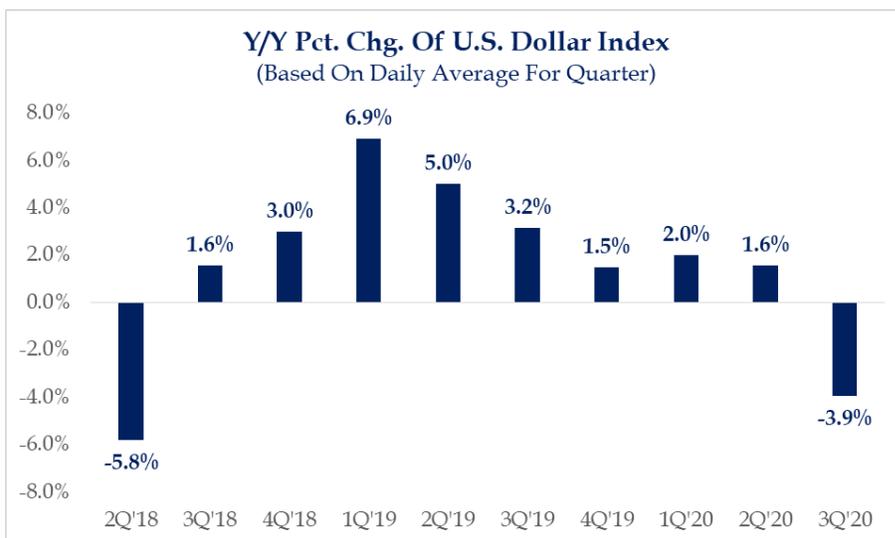
Companies are currently cutting expenditures at -1.9% Y/Y, but are doing so significantly less than they did during the previous two recessions and even the slowdown of 2016. History suggests companies have more room to cut costs, and earnings season may provide clues to where those cuts will come from. Perhaps companies with declining sales and growing earnings will be attractive in 2021+.



Please see the Appendix on page 3 for important disclosures.

ARE COMPANIES BENEFITING FROM A WEAKER DOLLAR?

For the first time since 2Q'18, the year-over-year percentage change of the U.S. dollar index is negative. While this should benefit companies that receive a portion of their sales from abroad, we will be interested to see if the weaker dollar has been accretive. We sense the currency pair matters more, given the varying degrees of economic declines and recoveries due to the Covid-19 pandemic.



ARE THERE SIGNS OF INFLATION BEGINNING TO SHOW?

Headline inflation indexes are likely not going to show any meaningful pickup in inflation since shelter is such a large component. Still, management from companies will be able to provide clues on where they see rising prices. Two areas of focus for us this earnings season are raw materials (because of supply chain issues) and freight. More and more packages are being delivered daily, and there are only so many trucks.



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